NexGen Wealth Accumulation Case Example

2013

# TAX DEFERRED ADVANTAGE OF CORPORATE INVESTMENTS

COMPOUND GROWTH

## SYNOPSIS

Whether an individual earns his income directly or through a corporate structure, the theory of integration imbedded in the Canadian Income Tax Act means that an individual will ultimately pay the same total income tax liability.

However, corporate income taxes at the small business level are usually 25+% lower than personal income tax levels at the highest marginal tax brackets.

Therefore an owner manager should withdraw from the corporation only the cash he requires to meet his annual personal expenses.

All other after tax cash should be invested wisely by the corporation to take advantage of what we call the "The Tax Deferred Advantage".

## FOR EXAMPLE

Mary owns ABC Corp. (eligible for the small business tax rates) which annually earns $400,000 after withdrawing the salary and benefits required to look after her family's annual expenses.

| | | |
|---|---|---|
| ABC Corp Taxable Income | $ | 400,000 |
| Federal Income Tax @ 11.0% | $ | -44,000 |
| Ontario Income Tax @ 4.5% | $ | -18,000 |
| **After Tax Profits** | **$** | **338,000** |

| | | | | |
|---|---|---|---|---|
| Paid to Mary as a Dividend | $ | 338,000 | | |
| Personal Tax paid @ 32.57% | $ | -110,087 | | |
| Available for Investment | $ | 227,913 | $ | 338,000 |
| **Tax Deferred Advantage** | **$** | **110,087** | | |

Most owner managers desire conservative investments for these hard earned after tax dollars. Interest earning investments (GIC's, Term Deposits, Bonds) attract extremely high tax rates at the corporate level (as high as 49%).

## NEXGEN SOLUTION

To avoid these high rates of tax and to maintain as much of the Tax Deferred Advantage as possible, Mary could select NexGen's Bond or Balanced Funds in combination with NexGen's Compound Growth Class (intended not to distribute any taxable income annually).

## RESULT

**Mary creates a larger pool of investment dollars for future use within the corporate structure.**

**Coupled with family income splitting and dividend sprinkling strategies, Mary may also be able to reduce the income taxes on any further withdrawals.**



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**INVEST BETTER:** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the Cash Funds will be able to maintain their net asset value per security at a constant amount or that the full amount of your investment in the Funds will be returned to you.

The payment of distributions for Dividend Tax Credit Class and the Return of Capital Class should not be confused with a mutual fund's performance, rate of return or yield. If distributions paid by a mutual fund are greater than the performance of the fund, then your investment will decline. Distributions paid as a result of capital gains realized by a mutual fund and income and dividends earned by a fund are taxable in your hands in the year they are paid. For Return of Capital Class, your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, then you will have to pay capital gains tax on the amount below zero.

Tax liabilities on investment income and capital gains earned by a mutual fund cannot be mitigated nor can they be fully managed in all circumstances. The risk increases the greater the investment return earned by the mutual fund. As a result, a mutual fund may be required to make taxable distributions to investors in a NexGen Tax Class for which a distribution or type of distribution is not optimal or in accordance with their tax preference. The tax efficiency of the Return of Capital Class and the Compound Growth Class is enhanced the greater the demand for the Capital Gains Class, Dividend Tax Credit Class and the Registered Fund Class.

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